

Message Text

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PAGE 01 STATE 052555
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C O N F I D E N T I A L STATE 052555

FOR MICHAEL STYLES US CIVAIR DEL

E.O. 11652: GDS

TAGS: EAIR, UK

SUBJECT: CIVAIR: US-ITALY CONSULTATIONS

1. FOLLOWING IS TEXT OF LETTER CONVEYING CAB VIEWS AND
RECOMMENDATIONS ON US-ITALY CONSULTATIONS. LETTER HAS
RECEIVED FINAL BOARD APPROVAL.

BEGIN TEXT DEAR MR. SECRETARY: THIS LETTER EXPRESSES
THE BOARD'S VIEWS AND RECOMMENDATIONS ON THE CAPACITY
CONSULTATIONS WITH THE GOVERNMENT OF ITALY WHICH ARE
SCHEDULED TO BEGIN MARCH 14, 1977. THE GOVERNMENT OF ITALY
OBJECTED TO THE U.S. CARRIERS' SUMMER SCHEDULES AND
REQUESTED THE CONSULTATIONS UNDER THE PROVISIONS OF THE
MAY 21, 1970 MEMORANDUM OF UNDERSTANDING.

THE BOARD BELIEVES THERE ARE TWO GOALS THAT MUST BE

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 052555

ACHIEVED IF RETALIATORY MEASURES AGAINST ALITALIA ARE TO
BE AVOIDED. ONE IS THE REMOVAL OF ITALY'S BAN ON 747F
ALL-CARGO SERVICES BY U.S. CARRIERS. THE OTHER IS NO
UNILATERAL INTERFERENCE BY THE ITALIAN AUTHORITIES WITH
THE SUMMER SCHEDULES OF THE U.S. CARRIERS.

ALITALIA PLANS INCREASES FOR THIS SUMMER IN THE TRANS-

ATLANTIC CAPACITY OF ITS COMBINATION AND ALL-CARGO

SERVICES. THE U.S. CARRIERS PLAN DECREASES IN TRANS-ATLANTIC CAPACITY FOR COMBINATION AND ALL-CARGO SERVICES TO ITALY. THE ENGLISH TEXT OF THE MEMORANDUM OF UNDERSTANDING, FROM WHICH THE ITALIAN TRANSLATION WAS MADE, PROVIDES THAT THE CAPACITY PROCEDURES AND PROVISIONS ONLY GO INTO EFFECT WHEN CAPACITY INCREASES OCCUR. WHILE THE ITALIAN TRANSLATION IS DEFICIENT ON THIS POINT, WE RECOMMEND THAT THE UNITED STATES GOVERNMENT TAKE THE POSITION THAT, SINCE THE U.S. CARRIERS' CAPACITY DID NOT INCREASE, THESE CAPACITY CONSULTATIONS ARE NOT UNDER THE MEMORANDUM OF UNDERSTANDING BUT UNDER THE AIR TRANSPORT AGREEMENT. HOWEVER, IF THE DEPARTMENT OF STATE BELIEVES THAT THE CAPACITY INCREASES RESULTING FROM PAN AMERICAN'S CHANGE TO WIDE-BODIED EQUIPMENT ON SECTORS BEYOND ROME SHOULD BE CONSIDERED WITHIN THE CAPACITY INCREASE TERMS OF THE MEMORANDUM OF UNDERSTANDING, THE BOARD RECOMMENDS THAT ONLY THE AFFECTED SECTORS BE DISCUSSED IN THIS CONTEXT. THE CLARIFICATION OF THE AMBIT OF THE DISCUSSIONS IS REQUIRED IN ORDER TO AVOID EXPOSING ALL U.S. CARRIERS' SCHEDULES IN THE SUBSEQUENT SEASON TO A FREEZE AT THIS SUMMER'S LEVELS.

THE U.S. CARRIERS' REDUCED CAPACITY FOR THIS SUMMER IS CONSISTENT WITH THE TRAFFIC REQUIREMENT AND THEIR PERFORMANCE. ALITALIA'S CAPACITY INCREASES DO NOT MEET THESE CRITERIA. THE OVERALL PASSENGER CAPACITY OF U.S. CARRIERS IS NINE PERCENT LESS THAN LAST SUMMER. THE U.S.-

CONFIDENTIAL

PAGE 03 STATE 052555

ITALY TRAFFIC CARRIED BY U.S. CARRIERS GREW BY FIVE PERCENT IN 1975 AND AT A SLIGHTLY HIGHER RATE THROUGH YEAR ENDED SEPTEMBER 30, 1976. THE U.S. CARRIERS' AVERAGE LOAD FACTOR ON NONSTOP SERVICES WAS FIFTY-NINE PERCENT FOR THE YEAR ENDED SEPTEMBER 30, 1976. THE PRECEDING EXPERIENCE IS IN SHARP CONTRAST WITH THE ITALIAN CARRIER'S EIGHT PERCENT CAPACITY INCREASE FOR THIS SUMMER FOLLOWING ITS EIGHTEEN PERCENT TRAFFIC DECLINE IN 1975 AND FIVE PERCENT DECLINE IN 1976 THROUGH SEPTEMBER AT A LOAD FACTOR OF FIFTY-SIX PERCENT. THE TOTAL U.S.-ITALY PASSENGER TRAFFIC HAS GROWN BY APPROXIMATELY TWO PERCENT IN EACH OF THE PAST TWO YEARS.

THE PRINCIPAL THRUST OF THE ITALIAN CONCERNS SEEMS TO BE THE LEVEL OF U.S. CARRIERS SERVICES BEYOND ROME AND NOT WITH EXCESSIVE CAPACITY IN RELATION TO MARKET TRENDS. FOR EXAMPLE, THEY CHALLENGE TRANS WORLD'S PLANNED SCHEDULES BEYOND ROME WHICH WERE REDUCED FOR THIS SUMMER. THEY SAY IT IS ABSOLUTELY RIGHT TO LIMIT SUCH SERVICES SINCE

THEY HAVE UNDUE EFFECT ON ALITALIA AND VIOLATE THE CAPACITY ARTICLE. THE BEYOND ROME LIMIT THEY MENTION IS A REDUCTION FROM THE THIRTY-FIVE WEEKLY SERVICES SCHEDULED

BY THE U.S. CARRIERS LAST SUMMER TO ONLY FOURTEEN WEEKLY SERVICES THIS SUMMER.

THE BEYOND ROME RIGHTS FOR THE AIRLINES OF THE UNITED STATES WERE A SIGNIFICANT ISSUE IN THE NEGOTIATIONS WHICH LED TO THE AIR TRANSPORT AGREEMENT OF 1970. THE CONSIDERABLE BENEFITS ITALY DERIVES FROM SIXTH FREEDOM TRAFFIC WITH U.S. ORIGIN OR DESTINATION WAS WEIGHED IN THE BALANCE. THE U.S. CARRIERS HAVE USED THESE BEYOND RIGHTS IN A REASONABLE FASHION TO IMPLEMENT THEIR CERTIFICATED SYSTEM NETWORK AUTHORITY. FOR THE YEAR ENDED SEPTEMBER 30, 1976, ONLY TWENTY-FOUR PERCENT OF THE U.S. CARRIERS' TOTAL ITALY PASSENGER TRAFFIC CONSISTED OF BEYOND ROME
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 052555

TRAFFIC. THE REVENUES FROM THEIR BEYOND SERVICES DURING THIS PERIOD WERE LESS THAN SIXTEEN PERCENT OF THE PASSENGER REVENUES THEY EARNED UNDER THE AGREEMENT. THESE TRAFFIC AND REVENUE MEASURES INDICATE REASONABLENESS.

THE RESTRICTIONS IMPOSED BY ITALY ON U.S. CARRIERS' ALL-CARGO SERVICES ARE ONEROUS. THEY HAVE BEEN COSTLY TO U.S. CARRIERS IN THE PAST AND WILL PRECLUDE SERVICES BY SOME OF THE U.S. CARRIERS AT SOME TIME IN THE FUTURE. TWO CARRIERS BELIEVE THEY WILL BE UNABLE TO OPERATE ANY ALL-CARGO SERVICES THIS SUMMER UNLESS ITALY ADMITS 747F EQUIPMENT.

THE ITALIAN RESTRICTIONS ON ALL-CARGO SERVICES ARE THE PROHIBITIONS AGAINST B-747F EQUIPMENT, ONE-WAY ALL-CARGO SERVICES AND CHANGE-OF-GAUGE AT POINTS OUTSIDE OF ITALY. THE LAST ONE ALSO AFFECTS COMBINATION SERVICES, BUT, SO FAR, HAS NOT POSED PRACTICAL PROBLEMS. THE BOARD CONSIDERS IT IMPORTANT THAT THE ITALIANA AUTHORITIES MEET ALL THEIR OBLIGATIONS AND RESCIND THESE RESTRICTIONS. WE CONSIDER IT ESSENTIAL THAT THEY RESCIND THE B-747F PROHIBITION. THE BOARD RECOMMENDS THAT IF THERE IS NO SUBSTANTIAL PROGRESS ON THE B-747F ISSUE DURING THESE CONSULTATIONS, THE UNITED STATES DELEGATION STATE THAT RETALIATORY MEASURES WILL BE TAKEN AGAINST ALITALIA.

THE ITALIAN POSITION ON THE U.S. CARRIERS' SERVICES BEYOND ROME APPEARS UNREASONABLE. AT PRESENT WE DO NOT PERCEIVE A SOUND BASIS FOR THEIR OBJECTIONS. TRANS WORLD'S CAPACITY HAS DECLINED AND PAN AMERICAN'S SWITCH TO WIDE-BODIED EQUIPMENT IS CONSISTENT WITH ITS PROGRAM

TO UTILIZE ONLY WIDE-BODIED EQUIPMENT IN TRANSATLANTIC
SERVICES. IT IS A REASONABLE CHANGE. WE THEREFORE
RECOMMEND THAT THE UNITED STATES DELEGATION INFORM THE
ITALIAN DELEGATION THAT RETALIATORY MEASURES WILL BE
TAKEN AGAINST ALITALIA IF THE ITALIAN AUTHORITIES PLACE
CONFIDENTIAL

CONFIDENTIAL

PAGE 05 STATE 052555

UNILATERAL RESTRICTIONS ON THE U.S. CARRIERS' SCHEDULES.

THE REPRESENTATIVE FROM THE CIVIL AERONAUTICS BOARD AT
THESE CONSULTATIONS WILL BE MR. ROSARIO J. SCIBILIA,
DEPUTY DIRECTOR OF THE BUREAU OF INTERNATIONAL AFFAIRS,
WHO IS PRESENTLY IN LONDON AS A MEMBER OF THE U.S.
DELEGATION FOR THE US-UK CONSULTATIONS AND WHO WILL
PROCEED TO ROME. SINCERELY, JOHN E. ROBSON, CHAIRMAN.
END TEXT

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